LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6518
BILL NUMBER: SB 260

DATE PREPARED: Feb 16, 2001
BILL AMENDED: Feb 5, 2001

SUBJECT: Pension Relief Fund Distributions.

FISCAL ANALYST: James Sperlik
PHONE NUMBER: 232-9866

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill provides that distributions from the Pension Relief Fund to local units of government shall be made in a particular year based on estimates of pension liabilities in the ensuing year. It provides that in 2001, units of local government will receive Pension Relief Fund distributions under both the current Pension Relief Fund law and under the amended law. The bill provides that an eligible unit of government receiving a distribution from the Pension Relief Fund must spend from its local resources in 2001 through 2007 and sets forth the minimum amounts of the required local spending.

It provides that to the extent that a distribution is paid in November 2001 or in 2002, that distribution must be placed in trust or encumbered for future pension payments. For each year through 2007, the bill provides an additional annual distribution from the Pension Relief Fund. It provides that the additional distribution is the amount necessary to ensure that at least 50% of each unit's pension liability is paid from the Pension Relief Fund.

The bill requires the PERF Board of Trustees to maintain separate accounts for each unit of local government into which a unit may: (1) make deposits; and (2) withdraw one time each year all or a portion of the unit's balance in the account to pay pension benefits under the Old Police and Firefighter Pension Funds. It provides a one-time distribution from the Pension Relief Fund in 2001 in an amount sufficient to ensure that the Pension Relief Fund has paid at least 50% of each unit's pension liability for 1998 through 2000. (The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: Upon passage; July 1, 2001.

Explanation of State Expenditures: (Revised) For the Public Employees' Retirement Fund (PERF), as administrators of the Pension Relief Fund, there likely will be additional administrative time and perhaps additional costs associated with the maintenance of separate accounts for each unit receiving the additional Pension Relief Fund distributions. The specific fiscal impact, both for the amount of time necessary and the potential costs, are indeterminable, but are expected to be relatively minor. The fund affected is the Investment Earnings Fund for PERF.

There are three parts of this proposal that would create a fiscal impact. Parts 1 & 2 are impacted by the maintenance of effort requirement in the bill. These three provisions are explained below.

<u>Maintenance of Effort :</u> Eligible units receiving a distribution from the Pension Relief Fund must spend from its local sources in 2001 through 2007 at least the same amount as it spent in 1998 for total pension payments.

1) <u>Speed Up</u>: The bill provides that in 2001, units of local government will receive Pension Relief Fund distributions under both the current Pension Relief Fund law and this proposal. The advanced 2002 distribution will be deposited into special accounts and only distributed after the local unit has met their maintenance of effort. The amount of speed up funds deposited with PERF is estimated to be $86.8 M in 2001. Approximately $4.1 M of these funds will be distributed to local units in 2001 and $7.3 M in 2002.

Since the Pension Relief Fund distributions will be accelerated by a year, there will be a fiscal impact from the loss of interest earnings that those funds would have been able to generate. The present value of the lost investment earnings is estimated to be $109.3 M.

2) 50% Minimum: The bill provides that additional Pension Relief Fund distributions will be made each year through 2007 in an amount necessary to ensure that at least 50% of each unit's pension liability is paid from the Pension Relief Fund. The estimated present value (discounted at an interest rate of 7%) of the additional Pension Relief Fund distributions through the year 2007 will be approximately $43.1 M. The table below provides a year-by-year breakdown of the additional Pension Relief Fund distributions which result in a total of $51.3 M in additional funds that will be distributed to local units over the next seven years.

Year	Additional Pension Relief Distributions Due to 50% Minimum
2001	$6.6 M
2002	$5.5 M
2003	$6.9 M
2004	$7.3 M
2005	$8.0 M
2006	$8.0 M
2007	$9.0 M
Total	$51.3 M

As amended, if in any year the sum of total local revenue that a unit must expend for total pension payments plus the state distributions exceeds the local unit’s total pension payment obligation, the state board shall reduce the distribution under provision 2 above in the amount of the excess.

An example of how provision 2 works is provided. A city had total pension benefits during 1998 of $150,000 of which $100,000 was paid from the city's own resources (its 1998 "City Share") and the remaining $50,000 was paid from Pension Relief Fund distributions. In 2001, there are projected to be $160,000 in benefits to be paid. Senate Bill 260, prior to the amendment, would distribute $80,000 from the Pension Relief Fund such that the city would pay the remaining $80,000. There would be a 50/50 split in responsibility for who pays the total $160,000. The amendment would reduce the maximum Pension Relief Fund distribution by $20,000, since the 1998 "City Share" of $100,000 plus the $80,000 exceeds the total projected benefits for 2001 by that amount, $20,000. The city would still receive an additional $60,000 under this provision.

The net result of the amendment requiring the maintenance of effort reduces the Pension Relief distribution in 2001 by an estimated $345,230 on a state wide basis. For 2002, the amendment reduces the Pension Relief distribution by an estimated $76,130 on a state wide basis.

3) <u>Catch Up:</u> The bill also provides for a one-time distribution from the Pension Relief Fund in 2001 in an amount sufficient to ensure that the Pension Relief Fund has paid at least 50% of each unit's pension liability for 1998 through 2000. This one-time distribution is estimated to be $15.78 M.

NOTE: The Office of Fiscal and Management Analysis has a printout which shows the impact of SB 260, as amended, to each recipient entity.

Background: The major source of revenues for the Pension Relief Fund consists of a dedicated portion of Cigarette and Liquor taxes, investment income on invested funds, and (since 1990) Lottery revenue.

Under current statute, the "k" portion of the Pension Relief Fund is projected to run out of money in the year 2015. With this proposal and no additional State General Fund appropriations, the "k" portion of the Pension Relief Fund will run out of money in the year 2008. This means that the "m" portion of the Pension Relief Fund will replace the diminished "k" portion until 2015.

Under current statute, the "m" portion of the Pension Relief Fund is projected to run out of money in the year 2021. If this bill is adopted and there are no State General Fund appropriations, the "m" portion of the Pension Relief Fund will run out of money in the year 2015.

<u>Explanation of State Revenues:</u>

<u>Explanation of Local Expenditures:</u>

<u>Explanation of Local Revenues:</u> See Explanation of State Expenditures, above.

<u>State Agencies Affected:</u> Public Employees' Retirement Fund.

<u>Local Agencies Affected:</u> Units which receive Pension Relief Fund distributions.

<u>Information Sources:</u> Doug Todd of McCready & Keene, Inc., Actuary for PERF, 576-1508.
<u>Present Value:</u> The amount of funds presently required to provide a benefit at some future date.